

**Neither Snow nor Sleet nor Dark of Night...:** We all are familiar with the rest of the variations on this phrase describing the dedication of the US Postal Service (USPS) in delivering the mail. Well, snow and rain may not be keeping the Post Office from delivering the mail, but financial problems within the USPS may soon halt delivery.

This has not gotten much publicity, but the USPS is in real trouble. The USPS is an independent, but wholly-owned entity of the federal government. It is designed to be self-supporting such that the rates it charges will cover the costs of delivering the mail. This worked for a long time. Obviously, for over 200 years. But, not so now. After earning modest profits from 2004-2006, the agency started hemorrhaging money in 2007. Between 2007 and 2010, it has lost over \$20 billion. These losses are now accelerating in 2011 with a loss, in the first 3 quarters of this year, amounting to \$5.7 billion. The USPS has already borrowed the maximum \$15 billion it is allowed to borrow under the law and has already deferred another \$4 billion in payments to its employee retirement fund to cover these losses. The Continuing Resolution adopted by the House last week will have the federal government make another roughly \$7 billion in payments for retirement and worker's compensation that the USPS does not have the cash to make. In other words, the USPS has run a deficit of \$26 billion combined from the last several years, which has been covered by borrowing from various sources, and there is no turn-around in sight. The fact is that the USPS has both run out of cash and borrowing ability, and will be completely out of cash by the middle of next year.

Why is this happening? Part of the reason is the impact of e-mail, Fed-Ex and other competitors, and the general economy on mail volume. Mail volume has dropped from a peak of 213.1 billion pieces in 2006 to 170.6 billion in 2010. That's a drop of nearly 20%. Much of this drop is unlikely to be reversed as the alternatives to "snail mail" increase and as younger generations increasingly communicate online or by text or cell phone. Fifteen years ago, these missives would have been "snail mailed" to you. But, volume alone does not account for the entire problem. 80% of the costs incurred by the USPS are employment costs. Although its employees are covered under the same benefits package as all other federal employees (including members of Congress), they are required to contribute a smaller share of their benefits than all other federal employees (including members of Congress). Recent law changes now require that they "catch-up" on their pension contributions and "fully fund" their retirement plan. This will require a payment of between \$5-6 billion every year through 2016. And, postal workers are shielded from layoffs. Furthermore, the law places a lot of restrictions on the USPS's ability to increase revenue through price increases, required subsidies, and permitted advertising.

OK, I know that I may have gotten a little bean-counterish on you all right there with all the

numbers and such. But, many of you like this stuff! Anyway, if I lost you for the last two paragraphs, come back to me now for the bottom line here.

In other words, this is a classic business failure scenario. New technology has made obsolete much of this business' core products. An intractable union refuses to adjust above-market benefit packages and requires unsustainable staffing levels. Government restrictions and tradition prevent the business from pursuing other avenues of income generation. New competitors are more flexible and have lower costs. Sounds just like the car and steel businesses (amongst others), huh? And, a classic business failure needs a classic business turnaround.

This means expenses have to be cut, unprofitable business units discontinued, and new profitable ones started. Services will need to be changed, employee costs reduced and renegotiated, and the USPS must become more lean and agile. Some of you may think that rates can just be raised and that will take care of it all. But, it will not. There are too many alternatives to mail these days, and increasing rates too much will result in further declines in mail volume, which will spiral into further losses. The structure of the business needs to change. But, since this is a wholly-owned government entity, many such changes unfortunately require Congressional action, which is action that rarely moves quickly.

Darrell Issa (R-CA) is chairman of the relevant committee in the House with jurisdiction over the USPS. He and Dennis Ross (R-FL) have introduced the "Issa-Ross Plan to Save the Postal Service". I will not go into detail here, but you can read details at the [Committee on Oversight and Government Reform's website](#)

. Darrell Issa is a guy who created and ran a number of businesses, and I am glad that someone with his experience is in charge here. Congress needs to vote on a bill like this in the next few months to prevent either total collapse or another huge taxpayer bailout costing many, many billions of dollars - and which will only postpone the inevitable.

I support the Issa-Ross plan as a good start. But, in order to be able to respond more quickly to new technologies and a changing environment, the USPS may need to be spun off from the government in one way or another in order to be free of the necessity of congressional action for every business plan change. Likewise, it may also need to be free of government civil service restrictions for employees in the future. However, what kind of entity this should be will be the subject of much debate in the months to come.

Now, if you will excuse me, I'm going to lick a stamp now.....just for old times' sake.